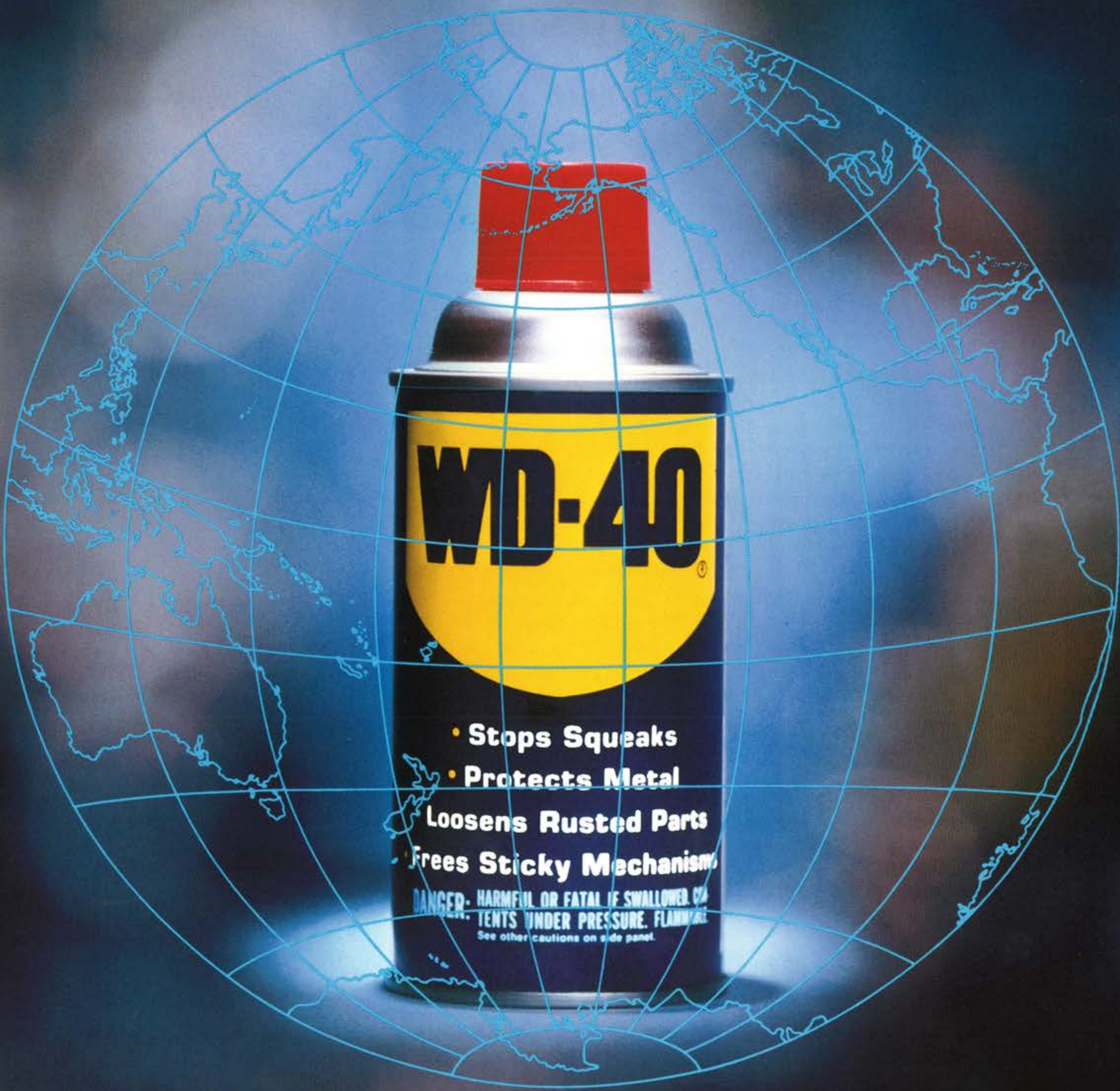
WD-40 COMPANY ANNUAL REPORT 1977

YEAR ENDING AUGUST 31



Highlights of Year Ended August 31, 1977

	1977	1976	% Increase
Net Sales	$20,495,000	$17,339,000	18.2%
Income before Taxes	$ 5,749,000	$ 4,721,000	21.8%
Net Income	$ 2,736,000	$ 2,253,000	21.5%
Net Income per Share	$2.25	$1.85	21.5%
Dividends Paid	$1.10	$ .95	15.8%
Average No. of Shares Outstanding	1,217,283	1,217,245	
Shares Outstanding	1,231,245	1,217,245	

- Current Ratio: 4.03 to 1
- Net Income to Average Net Worth: 54.5%
- Debt: None
- Receivables to Sales: 15.6%
- Inventories to Sales: 1.74%
- Sales per Employee: $661,129

October 25, 1977

TO OUR SHAREHOLDERS:

Your Company's sales and earnings reached record levels for the 16th consecutive year. Sales climbed to $20,495,000, up 18.2% from fiscal 1976. This represents "real" growth since there were no price changes in either fiscal 1976 or 1977.

Profit margins improved slightly resulting in earnings growing faster than sales. Net income rose to $2,736,000, up 21.5% over the previous year's all-time record.

On a per share basis, earnings were $2.25 versus $1.85 a year ago. We paid cash dividends of $1.10 per share and raised the regular quarterly dividend to $.30 per share effective April 29, 1977.

WD-40 sales increased in all of the many markets it serves. This continued growth in demand is attributed not only to the outstanding performance of our only product, but to the fact that our marketing programs are tailored to the many trade channels supplying the WD-40 markets. The inherent "cross-pollinization" characteristic of our single brand reinforces the effectiveness of these programs.

Domestic business contributed over 90% of sales and earnings. Because of the similarity of the United States and Canadian markets, we have established our own marketing operation in Canada. This has accelerated the development of that attractive market.

Your Company has changed from the controversial fluorocarbon propellent system to a less costly one successfully used by our Australian Licensee, Hawker de Havilland of Australia, for over 15 years.

Our 1978 Marketing Program both in the U.S. and Canada is designed to maintain our growth through stepped-up merchandising and advertising of WD-40.

John S. Barry

John S. Barry,
President

THE COMPANY

Corporate Objectives

Management is dedicated to the objectives of increasing corporate earnings and dividends by winning the end-user's brand loyalty for your Company's only product, WD-40.

The Product

WD-40 is the cornerstone of your Company. It is a chemical-petroleum based maintenance product consumed by end-users in homes, factories, garages, farms and offices throughout the free world. The well-established growth pattern in the demand for WD-40 attests to customer satisfaction with its performance.

WD-40 is typically procured for a specific application and, because of its unusual versatility, finds its way into many other uses. This broad range of uses provides your single-product Company with surprising diversification from a marketing point-of-view — it has little dependency on any one or even a group of end-users.

Markets

WD-40 is supplied to its many markets through a number of trade channels, the most important of which are: hardware, automotive, sporting goods, industrial and farm. Your Company envisions significant growth attainable through increased market penetration, especially in the Midwest and Eastern sections of the United States.

Competition

Your Company's success with WD-40 has not gone unnoticed. Numerous imitations from both tiny and huge companies have been introduced into the marketplace. None has gained a significant market share even in those cases where the companies had a long established position in their own trade channels. It may well be that, as the leader, WD-40 benefits at both the trade and end-user level by this focusing of attention on our kind of product.

Operational Overview

While your Company is technically a manufacturer, it is really a marketer. Such being the case, it is organized to focus intensive management attention on critical success areas of: (1) sales policies, (2) marketing plan formulation, and (3) implementation of marketing plans. Other vital functions handled internally are: order handling, credit, concentrate formulation, and quality control.

WD-40 concentrate is formulated in San Diego and shipped by tank wagon to contract packagers in Los Angeles, Texas, Georgia, New Jersey, Wisconsin, and Toronto, Canada. Independent sub-contractors package WD-40 to rigid specifications and, upon order from your Company, ship WD-40 to customers in their respective areas via common carrier. The packagers have no responsibility for marketing WD-40.

Your Company has 27 employees in the United States and 4 in Canada.

Capital Requirements — Dividends

Your Company will be able to accommodate a very substantial increase in business with an insignificant addition to fixed assets. Growth will require modest increases to working capital. There are no other plans for utilizing earnings, hence, it is expected that unneeded funds will be paid out as dividends. The 20% increase in the regular quarterly dividend to $.30 per share effective April 29, 1977 reflects this policy.

International

Your Company has a network of licensees and distributors throughout the free world. While contributing less than 10% of sales and income, this business does enhance WD-40's overall image as well as build demand in the United States through "cross-pollinization."

Fiscal 1978

We have beefed-up our field proven marketing programs and fully expect to thrust WD-40 sales and earnings to new record levels.

Price Waterhouse & Co.

600 B STREET, SAN DIEGO, CALIFORNIA 92101
714-231-1200

October 14, 1977

To the Board of Directors and Shareholders
of WD-40 Company

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of income and retained earnings and of changes in financial position present fairly the financial position of WD-40 Company and its subsidiary at August 31, 1977 and 1976, the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Price Waterhouse & Co.

WD-40 COMPANY
CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

	Year ended August 31	
	1977	1976
Net sales	$20,495,000	$17,339,000
Royalty and other income	296,000	229,000
	20,791,000	17,568,000
Cost and expenses:		
Cost of products sold	9,230,000	7,929,000
Selling, general and administrative	4,154,000	3,589,000
Advertising and sales promotion	1,658,000	1,329,000
	15,042,000	12,847,000
Income before taxes on income	5,749,000	4,721,000
Provision for income taxes (Note 2):		
Federal	2,529,000	2,058,000
State	480,000	406,000
Foreign	4,000	4,000
	3,013,000	2,468,000
Net income	2,736,000	2,253,000
Beginning retained earnings	3,315,000	2,218,000
Cash dividends of $1.10 and $.95 per share	(1,339,000)	(1,156,000)
Ending retained earnings	$ 4,712,000	$ 3,315,000
Earnings per share (Note 1)	$2.25	$1.85

see accompanying notes to consolidated financial statements

WD-40 COMPANY
CONSOLIDATED BALANCE SHEET

ASSETS

	August 31 1977	August 31 1976
Current assets:		
Cash, including time deposits of $2,770,000 and $1,755,000....	$3,090,000	$2,324,000
Accounts receivable, less allowance for cash discounts and doubtful accounts of $65,000 and $46,000	3,194,000	2,269,000
Inventories, at the lower of average cost or market:		
Finished goods	190,000	227,000
Raw materials	167,000	239,000
	357,000	466,000
Prepaid expenses	191,000	134,000
Total current assets	6,832,000	5,193,000
Property, plant and equipment at cost (Note 1):		
Land	100,000	100,000
Building and improvements	474,000	474,000
Machinery and equipment	333,000	319,000
Leasehold improvements	19,000	19,000
	926,000	912,000
Less: Accumulated depreciation	(202,000)	(163,000)
	724,000	749,000
	$7,556,000	$5,942,000

LIABILITIES AND SHAREHOLDERS' EQUITY

	1977	1976
Current liabilities:		
Accounts payable	$ 630,000	$ 481,000
Accrued payroll and related expenses	263,000	224,000
Accrued sales commissions	271,000	196,000
Estimated taxes on income (Note 2)	533,000	796,000
Total current liabilities	1,697,000	1,697,000
Deferred income tax (Note 2)	42,000	37,000
Shareholders' equity:		
Common stock, no par value, 2,000,000 shares authorized — issued and outstanding 1,231,245 and 1,217,245 shares stated at (Note 3)	984,000	772,000
Paid in capital	121,000	121,000
Retained earnings	4,712,000	3,315,000
Total shareholders' equity	5,817,000	4,208,000
	$7,556,000	$5,942,000

see accompanying notes to consolidated financial statements

WD-40 COMPANY
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	Year ended August 31	
	1977	1976
Financial resources were provided by:		
Operations —		
Net income	$2,736,000	$2,253,000
Depreciation	62,000	60,000
Provided by operations	2,798,000	2,313,000
Disposition of equipment	6,000	4,000
Deferred income tax	5,000	11,000
Issuance of common stock	212,000	
	3,021,000	2,328,000
Financial resources were used for:		
Cash dividends	1,339,000	1,156,000
Additions to plant and equipment	43,000	30,000
	1,382,000	1,186,000
Increase in working capital	$1,639,000	$1,142,000
Changes in components of working capital:		
Increase (decrease) in current assets —		
Cash	$ 766,000	$ 990,000
Accounts receivable	925,000	650,000
Inventories	(109,000)	124,000
Prepaid expenses	57,000	47,000
	1,639,000	1,811,000
Decrease (increase) in current liabilities —		
Accounts payable	(149,000)	(220,000)
Accrued payroll and related expenses	(39,000)	(73,000)
Accrued sales commissions	(75,000)	(107,000)
Estimated taxes on income	263,000	(269,000)
		(669,000)
Increase in working capital	$1,639,000	$1,142,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — Summary of accounting policies:

Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, WD-40 Products (Canada) Limited. All significant intercompany transactions have been eliminated. Accounts of the Canadian subsidiary have been translated into United States dollars at appropriate rates of exchange. The gain or loss resulting from translation, which was not material in amount, has been included in operations.

Depreciation

Depreciation of plant and equipment has been provided on the straight-line method, based upon estimated useful lives of thirty years for the plant, ten to fifteen years for machinery and equipment, and leasehold improvements over the life of the lease. Management has elected to depreciate plant, machinery and equipment on the declining balance method for income tax purposes. Expenditures for renewals and betterments are capitalized; maintenance and repair costs are expensed. Upon the sale or retirement of property, plant and equipment, cost and related depreciation are cleared from the accounts and any gain or loss is included in operations.

Earnings per share

Earnings per share are based on the weighted average number of shares outstanding during each year. Stock options do not have a material dilutive effect and have been excluded from per share computations.

NOTE 2 — Income taxes

Income tax provisions are computed at the statutory rates in effect for federal, state and foreign authorities, respectively. The provision for income taxes includes the following timing differences:

	August 31	
	1977	1976
Due to expenses recorded in advance of tax deduction —		
California Franchise Tax	$(29,000)	$(47,000)
Other — net	1,000	1,000
	(28,000)	(46,000)
Due to tax deduction in advance of recording expense —		
Excess of tax over book depreciation	5,000	11,000
Prepaid income taxes	$(23,000)	$(35,000)

NOTE 3 — Stock option plan:

The Company has a Qualified Stock Option Plan under which officers and key employees of the Company may be granted options to purchase an aggregate of not more than 30,000 shares of the Company's no par value common stock at a price not less than 100% of the fair market value of the stock at the date of grant. Options are exercisable one year after grant and may not be granted for terms in excess of five years. Options for 21,800 shares granted from January 1973 through September 1975 were outstanding at August 31, 1976. On August 31, 1977 options for 14,000 shares at $11 to $16.50 per share were exercised, leaving options for 7,800 shares at $11 to $22.75 per share outstanding and exercisable at August 31, 1977. Proceeds of $212,000 received from exercise of options at August 31, 1977 were credited to common stock. A total of 8,200 shares were available for future grants at August 31, 1976 and 1977.

NOTE 4 — Profit sharing plan:

The Company has a Profit Sharing Plan for the benefit of their regular full time employees, including officers. The Plan provides for annual contributions into a trust which are based upon an annual earnings formula, or more as approved by the Board, but which may not exceed the amount deductible for federal income tax purposes. The Plan may be amended or discontinued at any time by the Company. Profit sharing expense for 1977 and 1976 approximated $91,000 and $74,000 respectively.

COPY OF FORM 10-K

Beneficial owners may obtain a copy of WD-40 Company's annual report on Form 10-K filed with the Securities and Exchange Commission for 1977 by writing to the Secretary, WD-40 Company, 1061 Cudahy Place, San Diego, CA 92110.

	Fiscal 1977			Fiscal 1976		
Period	High	Low	Dividend	High	Low	Dividend
First quarter	18¼	15¼	$.25	14¼	10¼	$.25
Second quarter	22¼	18¼	.25	17½	13¼	.20
Third quarter	21½	19¼	.30	19¼	15½	.25
Fourth quarter	25½	20¾	.30	18¾	15¼	.25

The high and low sales prices are as quoted in Standard and Poor's Daily Stock Prices.

TEN YEAR SUMMARY (1)

FISCAL YEAR ENDED AUGUST 31

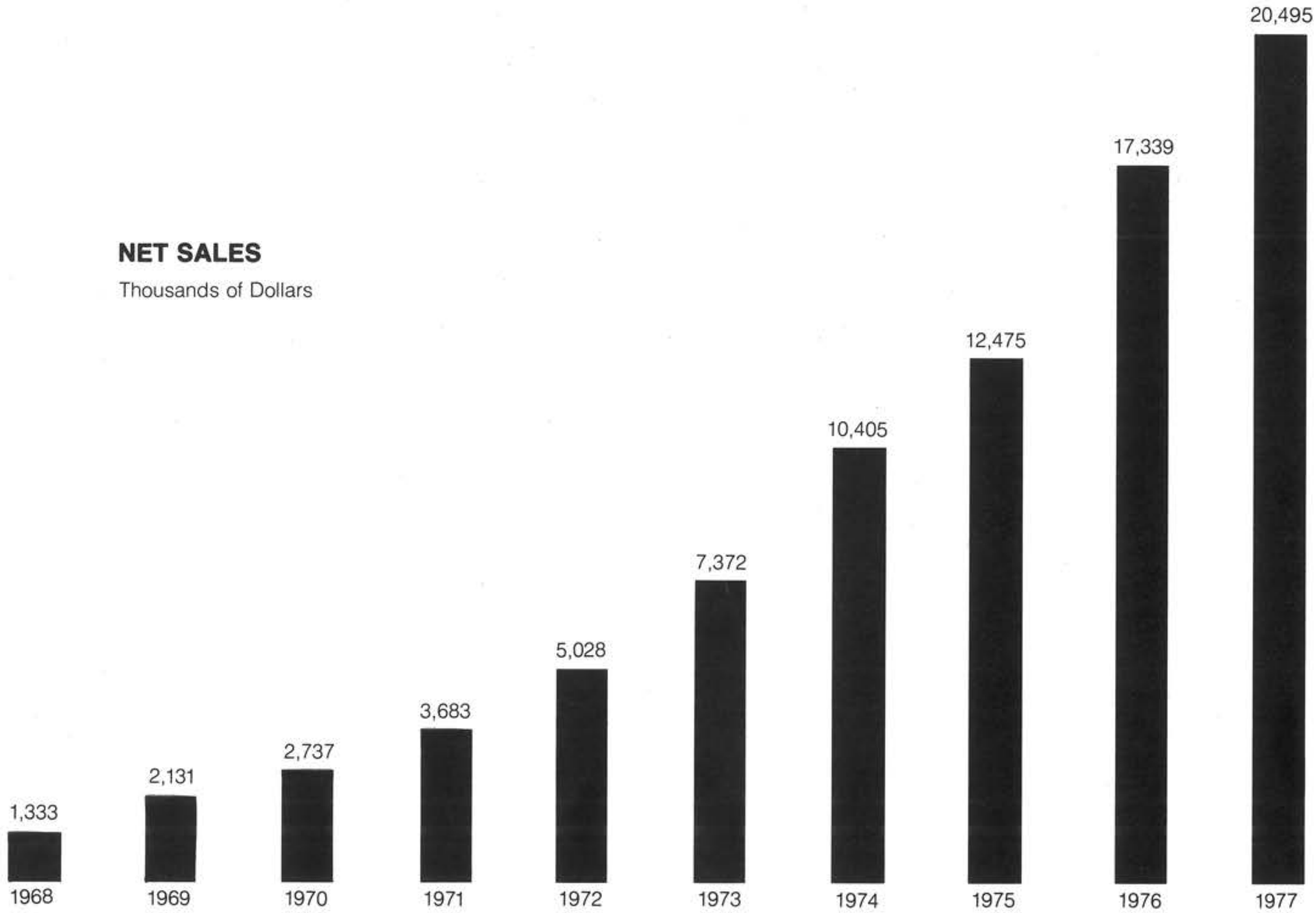
	1968	1969	1970
Net sales	$1,333,000	$2,131,000	$2,737,000
Cost of products sold	477,000	794,000	1,043,000
Gross profit	856,000	1,337,000	1,694,000
Selling, advertising, general and administrative expense	394,000	532,000	681,000
Royalty and other income	55,000	71,000	42,000
Income before taxes on income	517,000	876,000	1,055,000
Provision for income taxes (2)	275,000	484,000	569,000
Net income	$ 242,000	$ 392,000	$ 486,000
Earnings per share (3)	$ .21	$ .34	$ .42
Cash dividends per share (4)	$ .33	$ .61	$ .66

(1) Includes the accounts of the Company and its wholly owned subsidiary. All significant intercompany transactions have been eliminated. See Management's Discussion and Analysis of Operations of the five years ended August 31, 1973 through 1977 on page 9.

(2) The Company's shareholders elected to be taxed under Subchapter S of the Internal Revenue Code of 1954 during the five years ended August 31, 1968 through 1972. Under this election, the Company paid no federal income tax for these years because taxable income of the Company was includable in the federal income tax returns of the shareholders. A charge equivalent to federal income taxes which would have been paid, had the Subchapter S election not been made, has been included in the provision for income taxes for fiscal 1968 through 1972.

NET SALES

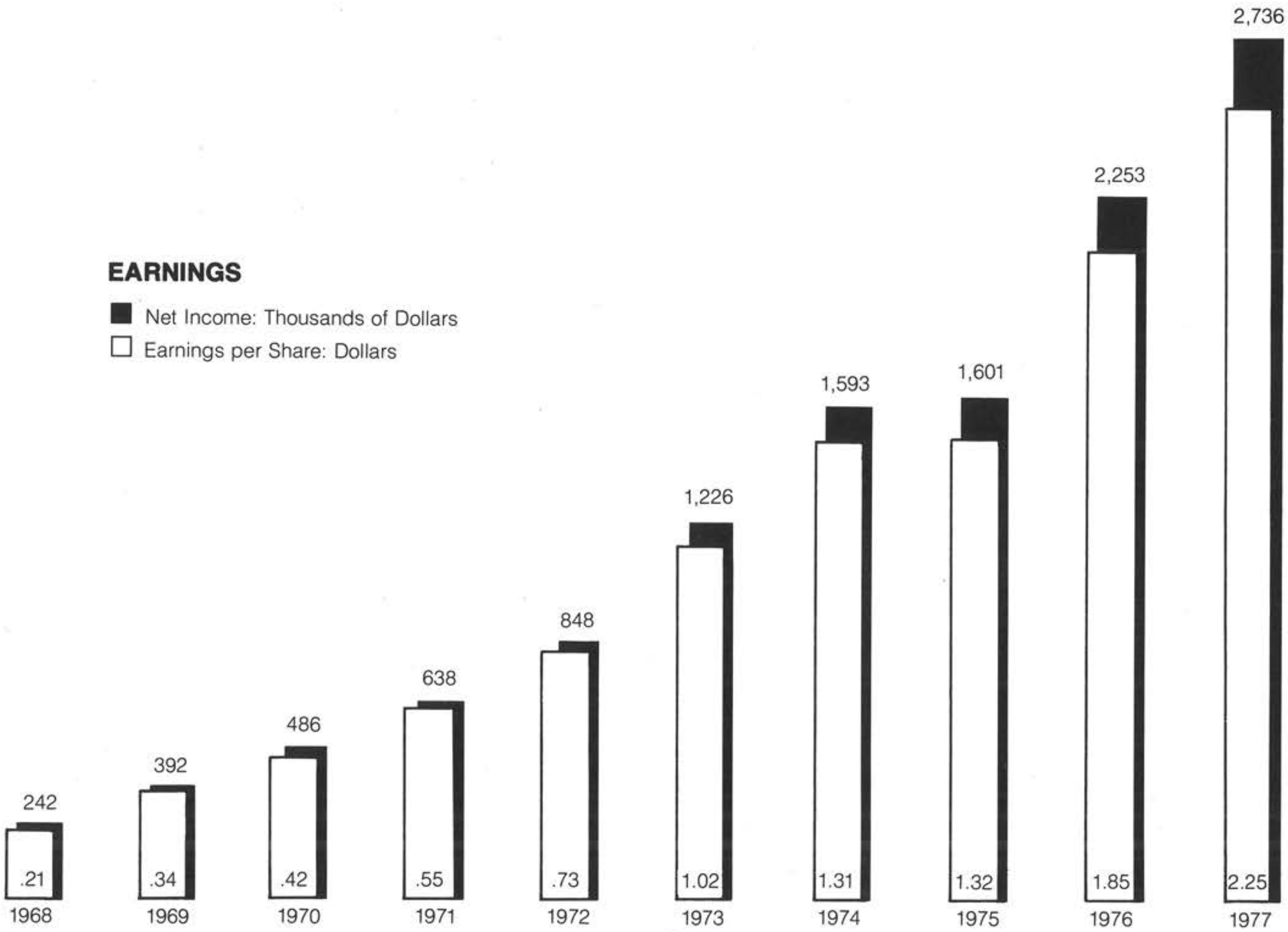
Thousands of Dollars



1971	1972	1973	1974	1975	1976	1977
$3,683,000	$5,028,000	$7,372,000	$10,405,000	$12,475,000	$17,339,000	$20,495,000
1,443,000	1,921,000	2,834,000	4,392,000	5,863,000	7,929,000	9,230,000
2,240,000	3,107,000	4,538,000	6,013,000	6,612,000	9,410,000	11,265,000
1,004,000	1,469,000	2,140,000	2,877,000	3,483,000	4,918,000	5,812,000
70,000	111,000	146,000	193,000	210,000	229,000	296,000
1,306,000	1,749,000	2,544,000	3,329,000	3,339,000	4,721,000	5,749,000
668,000	901,000	1,318,000	1,736,000	1,738,000	2,468,000	3,013,000
$ 638,000	$ 848,000	$1,226,000	$ 1,593,000	$ 1,601,000	$ 2,253,000	2,736,000
$ .55	$ .73	$1.02	$1.31	$1.32	$1.85	$2.25
$1.03	$1.06	$ .95	$ .80	$ .80	$ .95	$1.10

(3) Earnings per common share have been computed based upon the weighted average number of shares of common stock outstanding during each year after giving retroactive effect to the 42.5 for 1 stock split in November 1972. The weighted average number of shares outstanding during the fiscal years through August 31, 1972, the year ended August 31, 1973, the years ended August 31, 1974 through 1976 and the year ended August 31, 1977 were 1,165,945, 1,203,853, 1,217,245, and 1,217,283 respectively.

(4) The cash dividends paid per common share have been retroactively restated to give effect to the November 1972 stock split. Cash distributions paid to the shareholders through November 1972 were based on the approximate taxable income under Subchapter S for the five years ended August 31, 1968 through 1972 and therefore exceed net income after the charge equivalent to federal taxes on income.



WD-40 World Headquarters, San Diego, California.

WD-40 COMPANY 1061 CUDAHY PLACE, SAN DIEGO, CA. 92110